



NEW ZEALAND ECONOMIC UPDATE

April 2006

NATIONAL ECONOMIC UPDATE

This New Zealand Economic Update is produced monthly and presents current information on recent national business events, along with an update of key economic indicators

Inflation Pressure Remained

According to Statistics New Zealand (SNZ), the Consumer Price Index (CPI) increased 0.6% in the March 2006 quarter. This followed the increases of 0.7% and 1.1% in the December 2005 and September 2005 quarters respectively. Annual inflation hit 3.3% for the March 2006 year, exceeding the upper limit of 3.0% set by the Reserve Bank of New Zealand's (RBNZ) Inflation Policy Targets Agreement but nevertheless commensurate with market expectations.

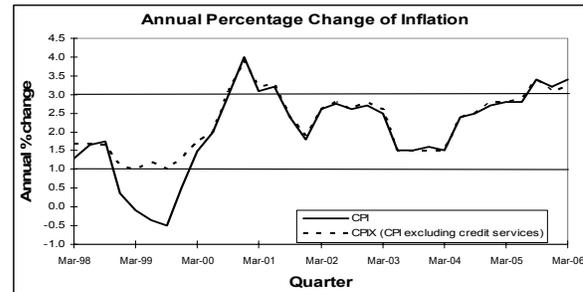
Price increases were widespread, with seven out of nine industry sectors recording price increases over the past three months. The housing group added 2.19 points to the CPI. Overall the CPI gained a total of 6.58 points. Driven by an increase of 1.0% in the prices of purchasing and construction of new dwellings, housing prices increased by 0.8% compared to the December 2005 quarter and 5.4% compared to March last year. Had construction prices remained unchanged over the year, on an annual basis the CPI would have increased by only 2.8%.

Food prices increased 1.0% on a quarterly basis and contributed 1.78 points to the increase in the CPI. There were significant quarterly price increases for grocery, soft drinks and confectionery (1.2%↑). The recreation and education group was the third largest contributor to increases in the CPI contributing 1.27 points. Due to higher tertiary tuition (+4.6 %↑), prices in this group increased 1.2% over the quarter and 2.1% over the year.

Other price increases occurred in the personal and health care group (0.9%↑,+0.88 points to CPI), tobacco and alcohol (0.7%↑,+0.72 to CPI), household operation (0.3%↑,+0.56 to CPI), and credit services (0.7%↑,+0.04 to CPI). However, prices fell in the transportation (0.3%↓,-0.67 points to CPI) and apparel (0.4%↓,-0.18 points to CPI).

Petrol prices made the most significant individual upward contribution to the quarterly CPI increase rising by 5.1%. However, this was more than offset by a fall of 12.3% for international airfares.

Although inflation remained above the 3.0% threshold, the easing in non-tradable inflation allowed the RBNZ to hold the official cash rate in April 2006.



Source: RBNZ and SNZ

Merchandise Trade Balance Improved

In March 2006 New Zealand's merchandise exports reached a value of \$3,179 million, up by \$385 million (or 13.8%) from the value recorded in March 2005.

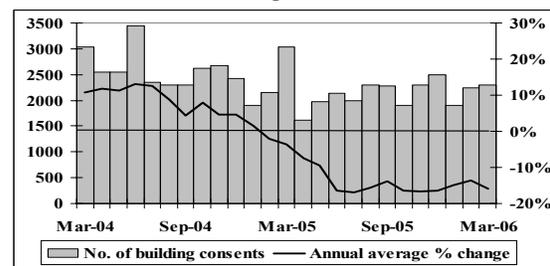
Meanwhile, imported goods were valued at \$3,120 million in March 2006, an increase of 4.6% on the level recorded in March 2005. As a result, the monthly trade balance attained a surplus of \$59 million (1.9% of exports). This was the first surplus recorded since May 2004.

A boost in dairy product exports was the main driver behind the trade surplus. Total exports in milk powder, butter and cheese were up \$130 million (or 31.7%) compared to March 2005. Increases that occurred in the value of imports largely came from increased demand for crude oil and petroleum products (↑\$101 million compared to March 2005), together with mechanical machinery and equipment (↑\$48 million).

Clearly we are now seeing the positive effects of the depreciation of the New Zealand currency on our export industries.

Key Indicator Trends

Building Consents

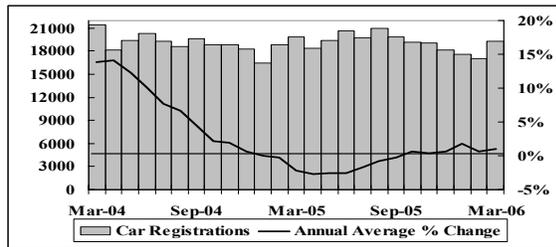


Source: Dept of Statistics Building Surveys and Vitals Section

There were a total of 2,299 consents issued for new dwellings during March 2006 valued at \$510.6 million. This number of consents was above the 2,237 consents issued in February 2006 but below the 3,027 recorded in March 2005.

The annual average growth rate in the number of building consents issued was -16.0% for the year to March 2006.

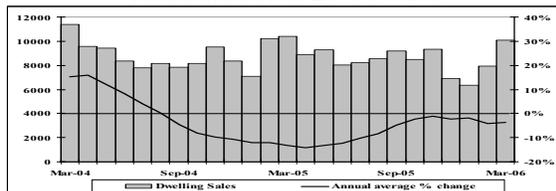
Car Registrations



Source: Land Transport Safety Authority

The number of national car registrations recorded increased significantly in March 2006. A total of 19,325 cars (including both new and ex-overseas car types) were registered during March 2006, the highest level recorded over the past six months. The annual average growth rate in the number of car registrations recorded in New Zealand was 1.1% for the year to March 2006.

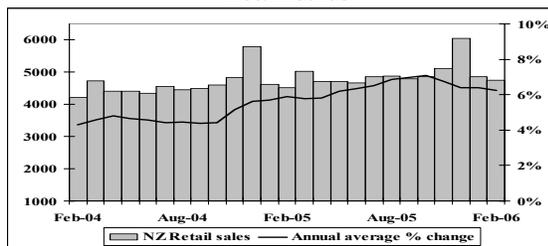
Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

The median house sale price in New Zealand reached a new high in March 2006 of \$302,000. This value exceeded the old record of \$300,000 (recorded in November 2005). The volume of sales improved in March with 10,094 homes being sold during the month. This was the first time since April 2005 that monthly sales exceeded 10,000 houses. The annual average growth rate in the volume of residential sales in New Zealand was -3.5% for the year to March 2006.

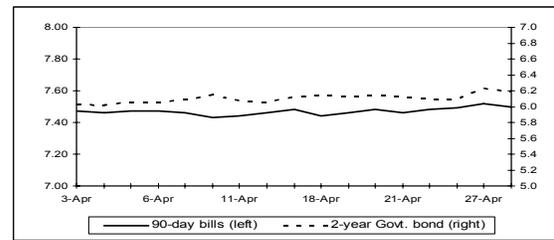
Retail Sales



Source: Business Statistics Section, Statistics New Zealand

National retail sales continued to ease in February 2006. The value of sales was down from \$4,849.8 million recorded in January 2006 to \$4,748.9 million recorded in February 2006. However, the value of retail sales recorded in February 2006 was an increase of \$222.7 million (or 4.9%) compared to the value of sales recorded in February 2005. The annual average growth rate in the value of national retail sales was 6.2% for the year ended February 2006.

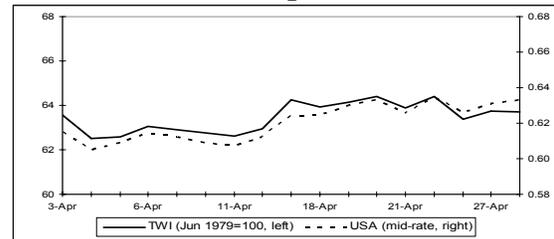
Interest Rates



Source: Reserve Bank of New Zealand

The New Zealand wholesale interest rate market was relatively stable in April 2006. By the end of the month, 90-day bill rates stood at 7.50%.

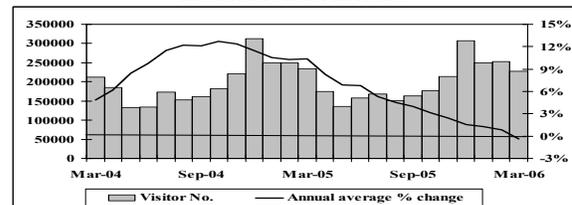
Exchange Rates



Source: Reserve Bank of New Zealand

After depreciating for the first ten trading days in April, the New Zealand dollar regained some ground against most of its trading partners. This was largely caused by a weaker US dollar. By the end of the month, NZ \$1.0 traded around US \$0.63 and the Trade-Weighted Index (TWI) stood at 63.7 points.

International Arrivals



Source: Statistics New Zealand

A total of 226,966 visitors entered New Zealand during March 2006. This number was below the 252,431 visitor arrivals recorded for February 2006, and a decrease of 3.0% compared to the number of arrivals recorded in March 2005. The annual average growth rate in the number of visitor arrivals to New Zealand was -0.4% for the year to March 2006.

Summary

According to NZIER's March 2006 Quarterly Survey of Business Opinion (QSBO), a net 41% of firms expected general economic conditions to deteriorate over the next six months. This was an improvement from a net 68% who took a similar gloomy view in the previous survey. A net 7% (seasonally adjusted) of firms surveyed reported a decline in their own business activity over the past three months. These survey results are suggestive that the New Zealand economy is already in mild recession. Capacity utilisation has declined marginally and currently sits at 91.4%. The difficulty firms had in finding skilled and unskilled labour has eased (down from 33% in the December 2005 quarter to a net 26% in the March 2006

quarter for skilled labour, and a fall from a net 17% to a net 9% for unskilled labour over the same period).

The latest National Bank Business Confidence Survey showed that business confidence rebounded in April 2006. A net 32.4% of firms surveyed in April expected that business conditions will worsen over the next 12 months compared to a net 51.0% who were pessimistic

in March. In addition, firms were optimistic about their business future with a net 14.5% in the April's survey anticipating that their level of business activity will increase over the coming year compared to a net 5.2% in March's survey.

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